

The North Carolina Economic Development Inventory

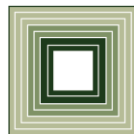
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**Joint Legislative Economic Development
and Global Engagement Oversight Committee**

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FISCAL RESEARCH DIVISION

A Staff Agency of the North Carolina General Assembly

Overview

- What is the Economic Development Inventory (EDI)?
- Tax Credits and Incentives
- General Fund Appropriations & Transportation

What is included in the EDI?

- All State spending with an economic development purpose
 - Does not include programs that would still exist if the State discontinued all business support services and incentive efforts
- Three spending areas:
 - Tax Incentives
 - General Fund Appropriations
 - » Commerce
 - » NC Community College System
 - » UNC
 - Transportation

How is State spending determined?

- Budgeted appropriations and actual expenditures
- Department of Revenue reports
 - Article 3A and 3J reports; other tax credit reports
 - Biennial Tax expenditure reports, 2005, 2007 and 2009
- Compilation is a joint effort between FRD Finance, NER, Education, and Transportation teams

Challenges

- Identifying all development spending by the State
 - Is the purpose economic development?
 - Is the spending actually State spending?
- Some spending may not be identified or quantified
- Consistently account for spending over time

EDI Highlights

- State spending on economic development for FY 2008-09 was \$1.22 billion
 - Tax Incentives = \$1.1 billion
 - General Fund Appropriations = \$121 million
 - Transportation = \$14 million
- EDI will be updated this interim with a new version released in Spring 2012

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- **Tax Credits and Incentives**
- General Fund Appropriations & Transportation

Tax Expenditures vs. Economic Development Incentives

- Tax Expenditures (DOR Biennial Tax Expenditure Report)
 - Estimates for FY 2008-09 totaled \$5.8 billion
 - Includes all tax exemptions, deductions, etc
 - Examples include sales tax exemptions for food and prescription drugs; Income tax exemptions for Social Security benefits

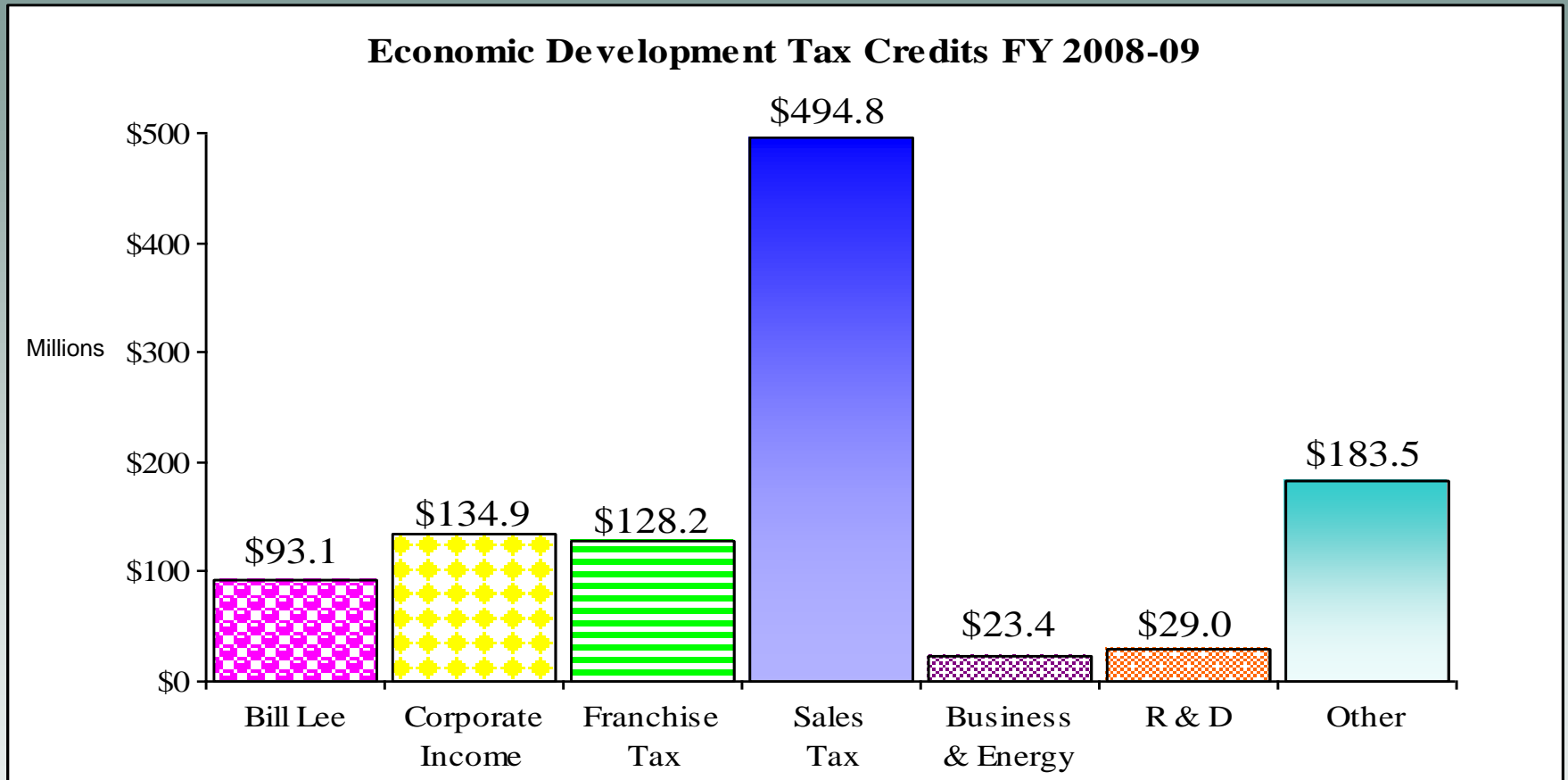
Tax Expenditures vs. Economic Development Incentives

- Economic Development Tax Incentives (Economic Development Inventory)
 - Estimates for FY 2008-09 totaled \$1.1 billion
 - Tax expenditures that are targeted to business and industries
 - Tax credits are not appropriations, but they have the same effect of lowering General Fund availability
 - Not subject to annual authorization

Tax Incentives

- Article 3A and 3J tax incentives
 - Job creation and business investment
 - Tax Credits
 - Corporate and Personal Income Tax
 - Franchise Tax
 - Gross Premiums Tax
- Other tax incentives
 - Exemptions
 - Deductions
 - Refunds
 - Caps
 - Preferential rates

Tax Incentives



Source: NC Department of Revenue

Article 3J Tax Incentives

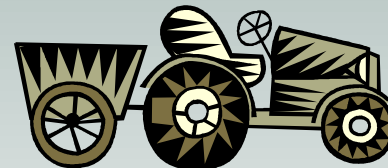
- Replaced Bill Lee Act in 2007 (Article 3A)
- Jobs Credit
- Credit for Investing in Machinery and Equipment
- Real Property Credit
- Art 3J Total Cost for FY 2010-11 = \$14.3 m.
- Art 3A Total Cost for FY 2010-11 = \$56.8 m.

Corporate Income Tax

- Double-Weighting Sales Apportionment
- Multi-state corporations apply NC apportionment formula to determine NC taxable income.
- 3 factors: Sales, Property and Payroll
- Double-weighting the sales factor benefits companies with large physical presence in NC.
- Cost in FY 2008-09 = \$59.8 million

Sales Tax

- Exemption for Sales to Farmers
 - \$127.9 million in FY 2008-09
 - Various items sold for agricultural purposes
 - Fertilizer
 - Lime
 - Farm Machinery
- Mill Machinery (Article 5F) = \$157.6 million
 - Taxed at 1% with \$80 cap



Other Incentives

- Business and Energy Credits (Article 3B)
 - Tax credits for renewable energy property
 - Examples include solar energy equipment and residential space heating
 - Total Cost for FY 2008-09 = \$23.4 million
- Research and Development Credits (Art 3F)
 - Credit for qualified research expenses
 - Total Cost for FY 2008-09 = \$29 million

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- **General Fund Appropriations & Transportation**

General Fund Appropriations: Commerce

- Primary State agency for economic development
- FY 2009-10:
 - \$54.8 million appropriated for incentives and support programs
 - \$34.5 million for *support programs*
 - 72% is pass-through funding to non-State entities
 - Administer direct incentive programs

Commerce: Direct Incentives

- Job Development Investment Grant (JDIG)
- One North Carolina Fund
- Job Maintenance and Capital Development Fund (JMAC)
- Industrial Development Fund (IDF)
- IDF Utility Account
- One NC Small Business Fund
- Green Business Fund



Commerce: JDIG

- Created in 2002; sunsets January 1, 2016
- Based on a % of personal income tax withholdings (10-75%)
- Maximum 12-year agreement
- Only available when the project would not locate in NC “*but for*” the grant
- FY 2011-12: Total of \$22.5M available (\$15.4M approp + \$7.1M carryforward)

Commerce:

One North Carolina Fund

- Created in 1993
- Grants used for:
 - Infrastructure development
 - R&R to existing facilities
 - Machine and equipment purchases
- Requires Job Creation & Local Match
- FY 2011-12: \$10 M NR



Commerce: JMAC

Created in 2007

- Existing companies in Tier 1 counties
 - Company must invest \$200 M and maintain 2,000 jobs
OR
 - Company must invest \$65 M and maintain 320 jobs

FY 2011-12: \$6 million NR



Commerce: Support Programs

- Division of Business & Industry
 - FY 2011-12: \$4.3M
- International Trade Division
 - FY 2011-12: \$2.5M
- Commerce Finance
 - FY 2011-12: \$833k
 - Administers Direct Incentive Programs
- Economic Development Board
- Economic Development Information System (EDIS)

Commerce:

Pass-Through Programs

- Regional Economic Development Commissions
 - FY 2011-12: \$2.25M R + \$2.2M NR
- NC Biotechnology Center
 - FY 2011-12: \$17.5M R
- NC Institute of Minority Economic Development
 - FY 2011-12: \$2.1M R
- Rural Center (subset of programs)
 - FY 2011-12 (total approp.): \$20.4M R + \$4M NR
- Other Pass-Throughs
 - Johnson & Wales; High Point Furniture Market; Indian Economic Development Initiative

General Fund Appropriations: Universities

FY 2009-10:

- \$13.8 million in support programs
 - Cooperative Extension Service
 - Industrial Extension Service
 - Small Business Technology Development Centers
- Additional \$2.1 million for various campus initiated programs
 - Ben Craig Center at UNC-C
 - UNC-G Office of Research & Economic Development

General Fund Appropriations: Community Colleges

FY 2009-10:

- \$12.5 million for direct, company specific support and training
 - Customized Training Program
- \$8.1 million for support programs
 - Textile Center
 - Center for Emerging Manufacturing Solutions
 - NC Military Business Center
 - Small Business Center Network

Transportation

- Direct programs for industries or industrial parks
 - Works with State and locals on large projects
 - Can also do smaller projects (e.g., turn lanes, new signals)
 - Short Line Rail Projects
 - Rail Industrial Access Program
- FY 2008-09: ~\$16 million expended

Incentives Study

- 2008 Contract with the UNC Center for Competitive Economies
- Will hear their report and recommendations at later meeting
 - Eliminate Statutory Tax Credits
 - Research showed the most effective incentives are tailored to address company-specific location decisions.
 - Expand JDIG and One NC Programs
 - Strong potential for success in targeting distressed counties.

Questions?

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